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SIPDIS

DEPT PASS TO USTR, USAID  
DEPT FOR E, EB/IFD, AF/EPS, AF/S  
DEPT FOR AF/S/AMBASSADOR FRAZER  
TREASURY FOR OIA/OAN/JRALYEA, BCUSHMAN

SENSITIVE

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SUBJECT: POVERTY AND UNEMPLOYMENT IN SOUTH AFRICA

REF: A) 04 PRETORIA 171 B) PRETORIA 29 C) PRETORIA 1413  
D) PRETORIA 2621 E) JOHANNESBURG 231 F) JOHANNESBURG  
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11. (SBU) Summary. While the government's macroeconomic and stabilization effort is largely complete, South Africa faces formidable medium and long-term challenges to reduce high unemployment and widespread poverty. More than a decade after apartheid, poverty and unemployment are still dramatically skewed along racial lines, with African blacks and "coloureds" experiencing the highest rates. Unfortunately, changes in statistical methodology over the years make it difficult to conclude whether the situation is improving or getting worse. Independent studies suggest that the situation has actually worsened since the early 1990s. Moreover, poverty in South Africa is tragically compounded by the fact that the country has the greatest number of HIV/AIDS infected people in the world; increasingly, HIV/AIDS related deaths are taking parents away from the next generation. The precipitous fall in life expectancy has lowered South Africa's rank in the 2004 Human Development Index to 119 out of 177 countries. Most inside and outside of government agree that South Africa's GDP growth rate of 3.7% in 2004, one of the highest in a decade, is still insufficient to reduce poverty and unemployment in the medium term. The political ramifications of unemployment and poverty in South Africa is such that we should make sure that economic growth and employment, along with HIV/AIDS, remain central elements of U.S. assistance programs for South Africa. End Summary.

Poverty in South Africa  
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12. (U) While the government's macroeconomic and stabilization effort is largely complete, South Africa faces formidable medium and long-term challenges to reduce high unemployment and widespread poverty. Fifty-seven percent of the population lives below the poverty line [defined here as a family of four living on less than \$215 per month]. Rural provinces such as Limpopo and the Eastern Cape have even higher rates of poverty, i.e., 77% and 72%, respectively. A rampaging HIV/AIDS epidemic has reduced life expectancy to 46 years in 2004 - down from 63 years in 1992 and well below the 69-year average for other lower middle-income countries. This reduction in life expectancy has been the primary factor for lowering South Africa's rank in the 2004 Human Development Index to 119 out of 177 countries.

13. (U) Poverty in South Africa is tragically compounded by the fact that the country has the greatest number of HIV/AIDS infected people in the world. In 2003, the United Nations estimated that 24% of adult South Africans were HIV positive. Statistics South Africa estimates that 15% of adult South Africans are HIV positive. Whichever estimate you accept, the outlook is horrifying. The South African National Department of Health now estimates that 6.4 million South African were HIV positive in 2004 or 13.4% of the total population. AIDS claims 800-1300 lives every day and the prevalence rate continues to rise in most age groups. In the absence of corrective measures, nine million lives, equivalent to 20% of the current population, could be lost over the next decade. Estimates suggest that the AIDS could reduce GDP growth by 0.5 to 2.5% per year as greater numbers begin to suffer from AIDS and die.

14. (U) Poverty in South Africa is also compounded by the fact that the country is still recovering from the political and cultural ramifications of apartheid. Socioeconomic divisions are dramatically drawn by race, and income inequality in the country is one of the highest in the world. Per capita income for the white population rivals that of developed countries, while the overwhelming majority of the 25.5 million South Africans who live in poverty are of African descent. If taken

separately, the country's African and "coloured" population would constitute the fifth largest sub-Saharan African country by population - after Nigeria, Ethiopia, the Democratic Republic of the Congo, and South Africa itself. For 2004, because of the high income of white South Africans and currency appreciation, South Africa's gross national income per capita reached \$3630, putting South Africa within the World Bank's upper middle-income country group for the first time. Without the 10% of the population that is white, however, South Africa's per capita GNI would stay squarely in the lower middle-income country category for many years to come.

#### The Absence of a Definition for Poverty -----

15. (U) The government has yet to define poverty according to a level or critical range of income. To date, the primary guides have been expenditure studies, such as the Income and Expenditure Surveys (IES) in 1995 and 2000 that give a sense of income groupings. However, the 2000 IES had major deficiencies caused by faulty weighting and the high number of non-responses, especially among well-off households. A number of independent studies have tried to bridge the 1995 and 2000 IES by linking either national accounting statistics or reconstructing the 2000 IES results. The general result has been that poverty appears to have increased since 1995, although the extent to which it has increased is debatable. Statistics SA will start a new IES in the third quarter 2005, with results to be published in 2007.

16. (U) In the meantime, independent studies do not agree on a measure of poverty. In the absence of good data on income and consumption, some researchers argue that an asset-based approach should be used (Ref B). In the context of calculating the Gini coefficient, the government once argued that social service spending on the poor should also be incorporated into calculation of a "social wage" when measuring poverty, but this has been a source of great contention. As with unemployment, the lack of good data means that the government is not sure if things are improving or getting worse.

#### The Outlook on Poverty -----

17. (U) The outlook on poverty in South Africa appears grim. Most independent studies suggest that poverty has increased since the early 1990s. Common sense suggests that as the impact of the HIV/AIDS epidemic is realized, the country will have to cope with increasing numbers of orphans and parentless households, only worsening the situation. The number of AIDS orphans is expected to triple by 2015. Projections using the ASSA2002 demographic model show HIV/AIDS deaths in 2010 could be 450,000, if 20% of infected persons receive anti-retroviral treatment, or 381,000, if 50% receive treatment, and 290,000 if receive 90% treatment. Certain sectors could be severely impacted, including government, agriculture, and mining. The rapid increase in child-headed households serves as a warning sign that unemployment and poverty will continue to be critical issues for South Africa.

18. (U) To measure the depth of poverty in South Africa, a November 2004 Human Sciences Resource Council (HSRC, a partly government funded institution) study calculated what it called the "poverty gap," i.e., the annual income transfer to all poor households required to bring them out of poverty. Between 1996 and 2001, HSRC found that the poverty gap had grown from R56 billion (equivalent to 6.7% of the GDP) to R81 million (equivalent to 8.3% of GDP), indicating that poverty was growing faster than the economy.

19. (U) This growth in poverty is reflected in a rise in inequality between rich and poor. HSRC found that South Africa's Gini coefficient (a measure of income inequality where zero equals perfect equality and one equals perfect inequality) had actually grown from 0.69 in 1996 to 0.77 in 2001. In its "Towards Ten Years of Freedom" report, the SAG calculated a coefficient of 0.57 in 2000. A recent University of Cape Town study estimated it to be 0.60. Whichever figure one uses, income inequality in South Africa remains among the highest in the world. (Ref A)

#### Unemployment in South Africa -----

10. (U) Over the past decade, unemployment appears to have worsened, but again no one really knows by how much. Changes in statistical methodologies limit the value of historical comparisons. The government relies on the Labor Force Survey (LFS) to provide the most accurate assessment of unemployment. It surveys households and

covers formal and informal sectors, including agricultural and non-agricultural workers. It found that official unemployment (using the ILO definition of unemployment, which is comparable to the U.S. definition) had risen from 26.7% in February 2000 to 31.2% in March 2003. In September 2004, the last estimate, it fell to 26.2%. While the recent downward trend is positive, the levels are still unacceptably high.

11. (U) A new data series, called the Quarterly Employment Statistics, was just released in June 2005. It has improved on the methodology used in the previous study of formal, non-agricultural employment, but excludes the informal sector and agriculture. It found that in the first quarter of 2005 formal non-agricultural employment fell 136,000 (1.9%) to 6.9 million.

12. (U) Increasingly, politicians and economists refer to the "broad" definition of unemployment. This is because the official definition requires that a person looked for work in the last four weeks, while the broad definition only requires that an individual self-certify that he or she would be willing to work. This captures the very poor who want to work, but cannot easily afford to spend a couple of dollars a day to search for work. The current broad estimate of unemployment, calculated in September 2004, was 41.0%.

#### Unemployment and Race

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13. (U) The legacy of apartheid is everywhere in South Africa and perhaps most pronounced when it comes to employment. The statistics that are available indicate that the South African labor force is clearly bifurcated along racial lines: one very educated and mostly white, and the other not so well educated and mostly black. Of those employed, more black South Africans than other racial groups work within the informal sector, which has no defined benefits derived from the place of employment. In September 2004, the informal sector employed an estimated 30% of black South Africans who had jobs and 6.6% of "other" South Africans (including white, coloured, Indian)(Refs C, E and F).

14. (U) Unemployment is also dramatically skewed along racial lines. Using the narrow, official definition, the unemployment rate for black Africans is 31.3%, for "coloureds" 21.8%, for Indians 13.4%, and for whites 5.4%. Black Africans and "coloureds" make up 88% of the population. Using the broader definition, the unemployment rate for black Africans is 47.8%, 30.4% for "coloureds," and 20.8% for Indians. Black African women have an official unemployment rate of 36%, the highest for any demographic group in South Africa.

15. (U) Education may normally be the most important non-racial factor in explaining unemployment, but in South Africa, access to education is also dramatically skewed along racial lines. Over 70% of whites have a high school education or above, while less than 25% of black Africans or "coloureds" do. Moreover, of South Africans who do have a higher education, black South Africans are still less likely to find employment. In 2002, 16.8% of black South African who completed tertiary education (i.e., university or technical training) could not find work, while only 2.6% of whites in the same category could not find work.

16. (U) Evidence suggests that the situation is getting worse. Haroon Borat, Director of the Development Policy Research Unit at the University of Cape Town and an award-winning researcher on poverty, unemployment, and labor markets recently released two working papers of note: "Poverty, Inequality, and Labor Markets in Africa: A Descriptive Overview," and "The Post-Apartheid South African Labor Market". In these studies, Borat measured South African labor market performance by race, using two October Household Surveys conducted by the Department of Labor in 1995 and 1999. For all new black entrants to find employment during this period, Borat found that black African employment had to have increased by 40%, "coloured" employment by 23%, Indian employment by 25%, and white employment by 9%. Actual increases in employment by racial group during this period were 9.9% for blacks, 15.9% for "coloureds", 12.4% for Indians, and 6.2% for whites. In other words, only about 25% of unemployed blacks found work during the same period that almost 70% of unemployed whites found work.

#### The Outlook on Unemployment

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17. (U) Most inside and outside of government agree that South Africa's GDP growth rate of 3.7% in 2004, one of the highest in a decade, is insufficient to reduce poverty and unemployment in the medium term. Charles

Meth, a research fellow at the School of Development Studies at the University of KwaZulu-Natal and one of South Africa's leading researchers on income inequality, poverty, and unemployment recently authored a working paper for the Development Policy Research, "Half Measures: The ANC's Unemployment and Poverty Reduction Goals." In his paper, Meth suggests that to halve the official rate of unemployment by 2014, as set forth in the UN Millennium Development Goals subscribed to by the South African Government, South Africa would have to create between 3.7 million, under the most optimistic conditions, and 7.6 million jobs, under the most pessimistic conditions. Using the broad measure of unemployment, South Africa would have to create between 5.4 and 9.6 million new jobs. This infers that annual GDP growth of 3.0% since 1994 has clearly not been enough to stem the tide of unemployment.

18. (U) A study released on April 29 by T-Sec (a South African consulting firm) compared the number of jobs created -- 168,000 jobs in 2004 -- with the number needed annually to halve official unemployment by 2014. Although the GDP growth rate was 3.7% in 2004, the study concluded that the economy only produced half the minimum number of jobs needed annually to achieve this goal.

Comment

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19. (U) The political ramifications of growing unemployment and poverty in South Africa is such that economic growth and employment, along with HIV/AIDs, should remain central elements of U.S. assistance programs for South Africa. Without employment generating growth, the country will find it increasingly difficult to recover from the structural racial division that has defined its sordid past. National government still needs help in designing effective pro-poor policies. Equally, local and provincial governments are in dire of need capacity building to implement national poverty and employment programs. U.S. foreign assistance should be directed to help set South Africa on a permanent course for growth and development, so that the country can serve as economic anchor and as an example for the rest of Africa.

Hartley